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SUBJECT: EGYPTIAN PRIME MINISTER URGES FTA ANNOUNCEMENT TO  
BOLSTER REFORM

Classified by Ambassador Ricciardone for reasons 1.4 (b) and (d).

1. (C) Summary. Prime Minister Nazif convoked the Ambassador on November 27 to make a strong plea for an FTA announcement during this week's TIFA Council meeting in Washington. Citing President Bush's promise to take "positive steps" by the end of the year, Nazif stressed that the GOE has demonstrated its readiness and commitment to negotiate an FTA by undertaking difficult economic reforms, and needs an FTA to bolster the reformers and the reform process at a critical political juncture. The Ambassador pressed Nazif hard on the disappointing conduct of the elections by the GOE, emphasizing that the larger political context does matter in the U.S. decision whether and when to begin negotiations on an FTA. Nazif affirmed that despite the election violence and electoral resurgence of the Muslim Brotherhood (MB), President Mubarak remained committed to both economic and democratic political reform as his "legacy." The Prime Minister cautioned, however, that the reform process is complex, and linking an FTA to specific additional reform steps could prove counterproductive. Still vulnerable, the reformers see the FTA announcement as a powerful impetus to their economic reform agenda and a way to strengthen their credibility and chances of being returned to office, bolstered both in spirit and in numbers. End summary.

2. (C) The Prime Minister opened the meeting by recounting President Bush's promise to him last spring for positive steps on an FTA before the end of 2005. Nazif expressed his hope that the TIFA Council meeting, being held in Washington on November 30, will result in an FTA announcement. He said that an FTA is needed to make the bilateral economic relationship more proactive and to align the countries' trade policies. The reformers have achieved much of their agenda, but have much more to accomplish urgently, and are moving forward on the remaining goals. This remarkable success so far demonstrates the GOE's ability and commitment to reform, he said.

3. (C) The Ambassador responded that the election thuggery had damaged the confidence and trust of foreigners as well as Egyptians in their Government. Had the GOE accepted international election monitors, they might have deterred miscreants from intimidating voters, and have given more accurate public reporting on the big picture (Nazif had claimed that current CNN reporting on democracy in Egypt was harsh and unfair). Nazif replied that "even if we accept all media reports as true," the ongoing parliamentary elections, as flawed as may be, represent a significant advance for democracy in Egypt -- "yet another result that we could not have imagined a year ago." The process had allowed MB candidates not only to run, but also to win what could prove to be as many as 100 seats in the 454-seat parliament. That fact alone, unwelcome as it was to the Government and most Egyptians, shows that unprecedented political change is happening. Though it should be a long term process of "10 or 15 years," Nazif argued that Mubarak is committed to pressing reforms quickly, aiming to turn over a civilian, democratic government to the people of Egypt within his remaining tenure.

4. (C) Nazif cautioned that transforming a state from one type of government to another is a long-term process, illustrated by the fact that even the first reform steps had not guaranteed wide voter participation (only 25% of voters turned out in the last round, and those voters belonged to narrowly defined groups). Suggesting that the reform process would have to be fine-tuned along the way, he argued that conditioning an FTA on specific political reform steps could be very tricky and ultimately counterproductive. The Prime Minister added that if the reformers ever judged that Mubarak was not committed to pressing the "transformation," "then we would all find something else to do."

5. (C) Minister Rachid stressed that the timing of the FTA announcement was critical. He expected that the large number of the MB in opposition in the new Parliament would negatively impact on all the GOE's reform efforts. Delaying

an FTA announcement would likely reduce the support and momentum for an FTA within government and could shake investor confidence in the Egyptian economy. FTA negotiations would force the MB to expose its true colors on the FTA's gamut of tough policy issues involving job creation and economic reform.

16. (C) The Prime Minister concurred with Rachid, noting that the MB bloc in the next Parliament will likely pander to anti-American sentiment by opposing closer relations with the U.S., including the negotiation of an FTA. More broadly, Nazif stated that the MB is seeking sufficient electoral representation to field a presidential candidate in 2011. With their rise, the only hope for quick political reform, the Prime Minister asserted, was to use the strength of the current presidential system to put a better system in place over the next two to three years. It is important for Washington to understand the danger facing the secular state of Egypt, he said.

17. (C) The Ambassador replied that the USG frankly did not accept the false choice that some in the NDP and even the GOE seemed to be holding forth: either a slow-to-reform GOE, or a slide toward a fanatical Islamic state. We continue to believe that serious democratic reform, at a bolder and faster pace, offers the best way for the political change for which Egyptians are clearly impatient. Washington was looking for GOE willingness to allow a liberal, democratic, free-market opposition, and for statements to this effect made at the highest levels. The Ambassador recommended that Nazif (leaving for the European-Mediterranean summit in Barcelona that day) or Mubarak himself should publicly and soon re-affirm such a commitment to hasten democratic political as well as economic reforms.

18. (C) Nazif responded that in his November 25 interview with the Financial Times he had in fact expressed the government's intention to allow "secular opposition parties to show their face" in the next phase of political reform. Meanwhile, the reforms that Mubarak had promised to complete this term, such as better balance of parties and greater representation of women in the parliament, are underway. The silver lining of the large vote for MB candidates is that it showed how much the population wants change. It also demonstrates that change has begun, though not in the way that either the USG or the GOE might have preferred. Nonetheless, given Egypt's low socio-economic indicators ("we are not eastern Europe"), Nazif doubted that change could have occurred any differently or faster. In any case, he argued that if political reform were required for an FTA, then neither Jordan nor Bahrain should have been accorded the opportunity to negotiate one with the U.S.

19. (C) Comment. As the current cabinet nears the end of its term, the reformers are determined to lock in their hard-fought gains and press for more if they survive. Having delivered on their promise to implement real and difficult reforms in just 16 months, they view an FTA announcement not only as a tool to ensure reform beyond their tenure, but also as an expression of U.S. confidence in the Mubarak/Nazif government. The reformers are still a vulnerable minority within the NDP, and their credibility inside and outside of government and possible shelf-life beyond the current government depends upon getting results. With President Mubarak gearing up to appoint a new cabinet after the parliamentary elections, the reformers are looking for an FTA announcement as U.S. validation of their program, and hope that it will result in Mubarak returning them to office, bolstered both in spirit and in numbers. End comment.

RICCIARDONE